Retirement Planning Insights

September 2022

In this issue:

Up Front
- Teaching and some more client visits

Retirement Planning News
- The Inflation Reduction Act

Practical Retirement Planning
- Will you have to pay more for Medicare premiums?

Up Front

Fall semester adjunct teaching and more trips to see clients

Teaching and educating is one of the things that truly brings me a sense of satisfaction and fulfillment.

I've so far taught five different semesters as an adjunct professor at Rutgers University. I've taught for both the MBA and undergraduate programs, and have taught the following courses:

- Analysis of Fixed Income
- Investment Analysis & Management
- Advanced Financial Management
- International Financial Management

I'm happy to share that I'll be teaching at Rutgers again this Fall semester. Specifically, I'll be teaching International Financial Management.

I last taught this class in the Spring of 2020, which was the semester the pandemic began. Hopefully this semester will have less surprises (and classes will remain in-person the whole time)!

In other news, I've been continuing to make some trips to visit clients.

I attempted to visit four different clients in the Chicago area at the end of July. I had a brilliant plan laid out; fly into Chicago early on a Friday, see one client in the western suburbs for lunch, see another in the western suburbs for dinner and then see two other clients in the city on Saturday.

Well, the unfortunate state of airline transportation had other plans. On that Friday morning, at 5:18AM, I checked the status of my 8AM flight and it was on time. However, as I was leaving my house at 5:31AM, I received a text notice that my flight was cancelled!

Long story short, I wasn't able to get myself to Chicago until 9PM that night. Needless to say, I had to cancel on the two clients I was planning on seeing that day. Thankfully I was still able to see the other two clients on Saturday.

I didn't really do anything touristy while in the city, but I did at least snap a picture of myself in front of a cool looking building.

I was able to visit with another client in early-August, when I drove out to Allentown, PA to meet up for lunch.

Even though my business is entirely virtual, it's still great to physically meet everyone at least once.

Enjoy your Septembers!

-Andy

Retirement Planning News

How the Inflation Reduction Act may impact retirement planning

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the "Act"). To read the full 755 pages of the Act in all its glory, click here.

Ironically, the Act doesn't appear to have any provisions that will actually reduce inflation; at least not immediately and not meaningfully. I suppose putting the words "Inflation Reduction" in the name was done simply to make it sound good in the current environment of high inflation. But I digress.

While the majority of the Act isn't specific to retirees, there are nonetheless some provisions in there that are likely to impact at least some retirees. To the extent any of the provisions may apply to you, it would be good to incorporate them into your retirement planning:

- **Expanded Medicare drug benefits** – One of the largest provisions of the Act is the fact that the Medicare system will be allowed to negotiate the price of certain prescription drugs, starting in 2026. This, in theory, should bring down the cost of said drugs for Medicare enrollees who use them.

  Additionally, the Act puts into place an out-of-pocket cap on prescription drug costs for Medicare enrollees. Specifically, the annual cap will be $2,000, starting in 2025.

  Furthermore, starting in 2023, there will be a $35/month cap on copays for insulin.

  Also starting in 2023, there are provisions that will reduce the costs and improve coverage of adult vaccines for people covered by Medicare Part D and Medicaid.

- **Extension of expanded Affordable Care Act premium subsidies** – Prior to the American Rescue Plan Act of 2021 (the "ARP"), people who were getting their health insurance through the Affordable Care Act (aka the "ACA," "Exchange" or "Obamacare") were eligible to receive subsidies on their monthly premium payments if their gross household income was no more than four times the federal poverty level. If they had even one dollar more than that income threshold, they were not eligible to receive any subsidies.

  Under the ARP, that income limit was removed such that there was no longer a hard "cliff" of eligibility cutoff at that level, but instead a gradually phased out eligibility. Specifically, the ARP did not stipulate a hard limit on income and instead instituted a provision whereby ACA recipients were able to receive subsidies based on the concept of recipients having to contribute a certain percentage of their incomes toward the cost of monthly premiums. To the extent the actual premiums exceed that "cost sharing" amount, subsidies would be available.

  Under the ARP, these expanded ACA subsidy rules were set to expire at the end of 2022. However, the Inflation Reduction Act further extended the relaxed ACA subsidy rules through the end of 2025. This means retirees who are not yet 65 (i.e. not eligible for Medicare) may be able to receive subsidized ACA health insurance for a few more years.

These two charges are, in my opinion, potentially the most impactful to retirees. There are other provisions in the Act that may directly or indirectly affect lots of people, not just retirees.

For example, the Act contains various clean energy and green initiatives from expanding energy-related individual tax credits to incentives for companies to invest in clean energy. These provisions could reduce individual tax bills and/or lead to increased job growth in certain businesses.

Additionally, there is an increased minimum corporate tax rate and a new excise tax on corporations doing stock buybacks. While these things may not directly impact most taxpayers, they are likely to at least indirectly impact the economy and stockholder returns.

Also, there will be increased funding for the Internal Revenue Service which, in theory, should mean the IRS will be able to more quickly process returns and respond to taxpayer inquiries.

All said and done, the Inflation Reduction Act is far from monumental. However, it has some provisions that may potentially positively impact your retirement planning.

Practical Retirement Planning

If you're 63 or older, make sure you get to know IRMAA

If you're within two years of signing up for Medicare, it would be helpful to know who IRMAA is.

No, IRMAA isn't actually a person. It's an acronym that stands for Income-Related Monthly Adjustment Amount and it's a monthly surcharge you may have to pay on your Medicare premiums if your income is over a certain level.

I've talked about IRMAA a few times throughout my newsletter and other content sources. However, I feel it's an important enough topic to bring up every now and again to make sure people have at least heard of it.

For 2022, the base monthly Medicare Part B premium is $170.10. However, many people pay more than this. Specifically, if your gross incomes in 2020 was over certain levels, you are subject to varying levels of IRMAA surcharges for 2022.

Yes, you read that correctly…IRMAA surcharges you have to pay for 2022 are based on your reported gross income from 2020. There is always a two-year lag between your gross income and your IRMAA, if any.

This is because of the timeline of how the government finds out about your gross income. For example, the 2022 Medicare premium and IRMAA amounts were announced in late-2021. At that time, the most recently available gross incomes reported to the government were those reported in your 2020 tax return (i.e. the tax return filed in early-2021). Therefore, it's the gross income reported on your 2020 tax return that impacts the Medicare premiums you pay in 2022.

Furthermore, the IRMAA surcharges, if any, you may have to pay reset every year. There is always a rolling two-year income lookback. Specifically, the IRMAA surcharges applicable for 2023 will be based on 2021 incomes, 2024 surcharges will be based on 2022 incomes, etc.

Here is a summary of the various 2020 gross income thresholds and their respective 2022 Part B premium amounts, inclusive of the IRMAA surcharges:

If your yearly income in 2020 (for what you pay in 2022) was			
File individual tax return	**File joint tax return**	**File married & separate tax return**	**You pay each month (in 2020)**
$91,000 or less	$182,000 or less	$91,000 or less	$170.10
above $91,000 up to $114,000	above $182,000 up to $228,000	Not applicable	$238.10
above $114,000 up to $142,000	above $228,000 up to $284,000	Not applicable	$340.20
above $142,000 up to $170,000	above $284,000 up to $340,000	Not applicable	$442.30
above $170,000 and less than $500,000	above $340,000 and less than $750,000	above $91,000 and less than $409,000	$544.30
$500,000 or above	$750,000 and above	$409,000 and above	$578.30

It's important to know these income thresholds and the respective surcharge amounts change each year, as they're adjusted for inflation. We won't know the 2023 IRMAA surcharges or 2021 income thresholds until late-2022.

Also, it's not just Part B that is subject to IRMAA surcharges; Part D premiums also have surcharges ranging from $12.40 to $77.90 per month (for 2022).

For more information about IRMAA, including when you may be able to get your surcharges waived for certain qualifying life events such as retirement, check out my podcast episode **here** or my YouTube video **here**.

In some cases, IRMAA may be unavoidable. However, there are many times where some thorough tax and income planning could help minimize IRMAA. The first step to planning around IRMAA is to fully understand it. Hopefully you find this newsletter, my podcast and my YouTube video helpful!